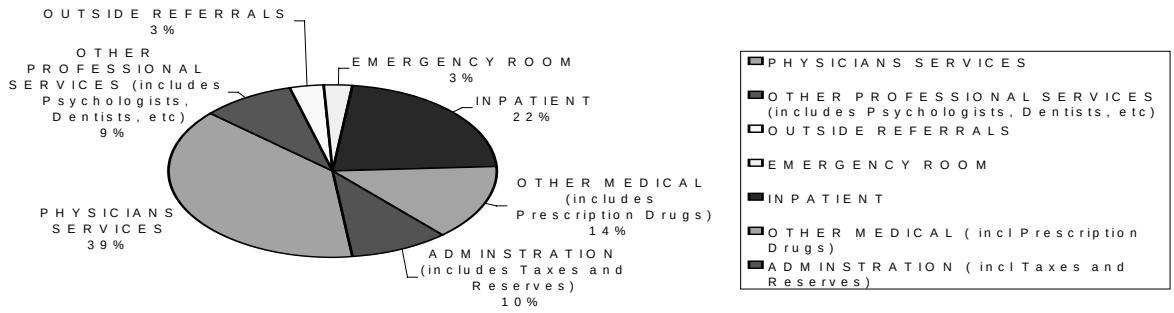
WHERE HMO PREMIUMS GO

Rate increases are, unfortunately, a common and recurring part of health insurance. When HMOs increase premiums, people may tend to blame them for the rising costs, however, that is by no means the whole picture. Premiums reflect an HMO's costs of providing payment for the services their members receive. It can be argued that drivers of health insurance costs are the providers and members. Providers impact premiums via reimbursement agreements with the HMOs and by directing the type of services and care the members receive. Physicians' services continue to be the largest component of health care costs, comprising almost 40% of the total.

Members impact utilization and costs through their health care choices. Consumers of health care have become more educated and are using more medical services, with the expectation of receiving the best that technology has to offer. Rising utilization, associated in part with an aging population, means progressively higher costs.

Prescription drugs are the fastest growing component of health care costs. Twenty years ago prescription drugs represented approximately 4% of total health plan costs; today they can represent as much as 15% of a plan's costs. Many complex issues affect prescription drug costs, such as new types of drugs, research and development costs, increased drug utilization and direct-to-consumer marketing.

The chart below is intended to help you understand where premium dollars go. The percentages shown are averages based on year 2000 data from the Office of the Commissioner of Insurance. The actual percentages paid by HMOs participating in the State Health Insurance program will vary. In addition, these percentages do not reflect the averages for individuals on Medicare, for whom prescription drugs may account for 50% or more of the HMOs' total costs.



Source: Office of the Commissioner of Insurance